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## CURRENT SUPPORT BRIEF

POLISH ECONOMY OPERATES SMOOTHLY DURING FIRST HALF OF 1961

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POLISH ECONOMY OPERATES SMOOTHLY DURING FIRST HALF OF 1961

The Polish economy expanded smoothly during the first six months of the new Five Year Plan (1961-65). 1/ A large growth of capital investment was accompanied by some signs of incipient inflation--an overplan expansion of employment, wages, and consumption. However, central controls over enterprise expenditures are operating more effectively than during the investment boom of 1959. Moreover, industry is exceeding its production targets, agricultural prospects are good, and domestic trade reserves are at a high level. Thus, it seems unlikely that the severe economic strains of 1959 will recur during the final months of 1961.

Gross industrial production during the first 6 months of 1961 was 11.4 percent greater than during the first half of 1960, equivalent to an increase in production of 9-10 percent as calculated in Western countries. The reported increase was 2.7 percent larger than that planned for the period and was the largest half-yearly increase since the early 1950's. Industrial employment increased by 3.2 percent, the largest increase in several years. The increase in labor productivity was about 8 percent, somewhat larger than planned but smaller than the increase registered in 1960. Production of most basic commodities and semi-manufactures was ahead of schedule, and the supply situation in industry caused fewer frictions than usual. Late deliveries of equipment for electric power plants, however, portend serious strains in the power supply situation throughout industry during the autumn period of peak demand.

Prospects are good in agriculture this year. The grain harvest is expected to exceed that of last year--the largest of the postwar period, according to the Poles--and the number of cattle and hogs which has been rising more rapidly than anticipated, is now at a postwar high. However, the number of milk cows failed to increase, portending continued difficulties with milk production. Peasant income increased sharply during the first half of the year, contributing to a large increase in purchases of agricultural machinery, building materials, and fertilizer.

Expenditures for capital investment increased by 14.5 percent during the first half-year--although a growth of only 9.2 percent had been scheduled for the whole year. By comparison, investment during the first half-year increased by 27 percent in 1959 and decreased slightly in 1960. 2/ During 1961, some progress appears to have been made in shortening the construction cycle for new plants. However, the problem of an excessive number of starts on new projects, one of the causes of economic difficulties in 1959, recurred in 1961.

The money income of the population increased well above the planned level. The wage bill in the socialized economy grew by 9 percent and the increase in take-home pay probably was even larger as a result of recent tax concessions. Employment expanded by 4.1 percent, well above the scheduled rate. There also were signs that the stringent wage discipline of 1960 was weakened and that the program for introduction of technical wage norms is behind schedule. Retail sales increased by about 10 percent, more than twice the rate scheduled for the year. Prices were stable, however, and the supply situation was good, with the usual exceptions of general shortages of quality durable goods and sporadic shortages in certain locations of individual food items. Market stability has been promoted by a high level of trade stocks and by the continued tendency of the population to save or invest a significant portion of any increase in income.

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Exports increased by 13.9 percent and imports by 9.8 percent in the first half-year, and the foreign trade deficit declined slightly. The deficit was scheduled to increase by 5 percent during the first half 3/ and to rise by more than 20 percent during 1961 as a whole. Exports of animal products--live hogs, in particular--rose considerably during the early part of 1961, as state procurement of slaughter animals increased much more rapidly than did domestic sales of meat. 4/ Reserves of industrially processed meat are believed to have increased during the first half of the year and Poland may be in a position to expand its meat exports, possibly including enlarged shipments to East Germany and Czechoslovakia, which currently are experiencing meat shortages.

No serious strains in the Polish economy are likely to occur during the second half of 1961. However, the regime may attempt to restrict the rate of growth of employment and wages, thereby reducing the growth rates of industrial production, investment, consumption. On the other hand, the regime has been sufficiently encouraged by the smoothness with which the economy has expanded thus far this year to raise numerous production targets for 1962 above the originally scheduled levels. 5/

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